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SUBJECT: MAS ECONOMICS TEAM: STRONG SOCIAL AWARENESS, WEAK ECONOMICS

REF: 05 LA PAZ 3670

¶1. (SBU) Summary: If reports about its economic transition teams are any indication, the future Movement Toward Socialism (MAS) government will have lots to learn. Current government ministers have told us that the MAS mining, economic development, and hydrocarbons teams conspicuously lack technical and administrative experience and have unrealistic ideas about mining taxation, free trade, and foreign assistance. The MAS transition teams have requested that four hydrocarbons-related supreme decrees be suspended and appear to define "nationalization" as state control over commercialization and the establishment of service-based contracts. End summary.

Minister of Mining Predicts Royalty Increase

¶2. (SBU) Minister of Mining Dionisio Garzon told the Ambassador recently that few of the incoming Morales administration's mining transition team members have mining or technical backgrounds, noting that some said they wanted to impose royalties as high as 11 percent of the value of extracted minerals, or roughly half of company profits. (Companies currently pay two to seven percent.) Garzon said he had acknowledged that royalties needed to be raised but had argued that raising them by that much would render most projects unprofitable, potentially forcing companies to cancel existing projects or delay new investments. Garzon said the three U.S. companies operating in Bolivia will have no legal recourse if the new administration introduces royalty hikes because of the special status of mining and exploration concessions granted by the state (which differ from contracts with the Bolivian Mining Corporation). Garzon believed the new mining minister would likely be associated with the mining cooperatives, which often take positions antagonistic to large mining multinationals.

Incoming Economic Team Inexperienced

¶3. (SBU) In recent meetings with Econoffs, Minister of Economic Development Carlos Diaz and lead Andean Free Trade

Agreement (FTA) negotiator Julio Alvarado said that few personnel of the relevant MAS transition team had technical backgrounds or previous government experience and that many evinced a tendency to think on a local rather than on a national level. Alvarado told us a decision on whether to continue FTA negotiations would likely be delayed as the incoming administration mulls over its priorities. Minister Diaz doubted the team understood the importance of an agreement and noted that team members expressed more interest in potential salaries for future MAS appointees than in the FTA or other economic issues, including the Millennium Challenge Account. Both speculated that the new lead FTA negotiator may be Ramiro Uchani, an indigenous leader of small and medium enterprise associations in El Alto.

Service Contracts and State-controlled Sales: The Future of Hydrocarbons?

14. (SBU) Hydrocarbons Minister Mauricio Medinaceli told Econoffs recently that he had held four meetings with the MAS hydrocarbons transition team, some of whom had sector-relevant experience. These included Carlos Villegas (MAS Economic Adviser), Jorge Alvarado (MAS candidate for Cochabamba Prefect who has an energy background and some knowledge of the sector), Barninia Daza (affiliated with YPFB, the State Oil Company), Eduardo Valdiviezo (former employee of Chaco oil company), Andres Solis Rada (leftist journalist and former NFR deputy), and several individuals affiliated with social sector watchdog groups. Medinaceli lamented that his administration would not be able to implement four recently drafted supreme decrees (reftel), as the incoming administration had pressured them to take no action. The four decrees concern: 1) lowering the price of jet fuel for international carriers; 2) changing gas

transportation regulations -- U.S.-invested Transredes is waiting for these regulations to secure loans to move forward on a pipeline construction project that has been pushed by the GOB; 3) regulations concerning royalty payments; and 4) regulations on tax breaks for producers with small fields, which will affect U.S.-invested Vintage Petroleum. (Note: Vintage representatives are satisfied with the proposed regulations. End note.) Medinaceli also complained that the MAS transition team had disclosed information from the meetings to the press, including the idea that the price of Bolivian gas sold to Argentina would increase. Medinaceli told us that, judging from his discussions with the transition team, the MAS understood "nationalization" to mean moving from shared risk contracts to operation or service-based contracts, coupled with the state's assuming control over the commercialization of gas.

15. (SBU) Comment: The MAS economic transition teams appear to place a premium on social sector representation rather than on subject matter expertise. This could play well with the future government's social sector bases in the early going, but the lack of experience and the flirtation with investment-unfriendly ideas could prove costly in the longer run. End comment.
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